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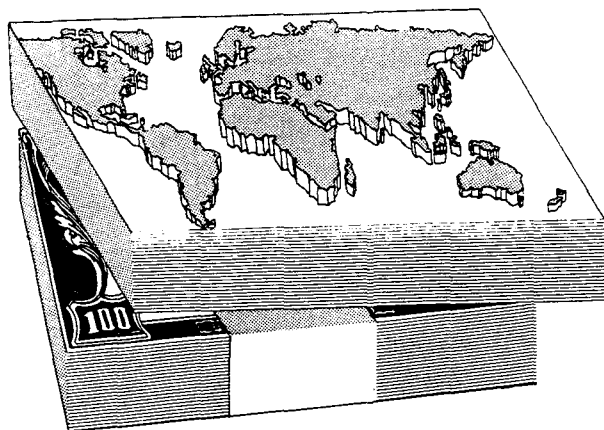
McFarland, Mark and Anthony, Myrvin and Armstrong, Lorraine and Ashcroft, Brian and Draper, Paul and Dunlop, Stewart and Le Tissier, Sarah and Lockyer, Cliff and Malloy, Eleanor and McGregor, Peter and McNicoll, Iain and McRory, Eric and Reid, Clare and Smith, R and Stevens, Jim and Swales, Kim and Yin, Ya Ping and , Fraser of Allander Institute (1993) The World economy [December 1993]. Quarterly Economic Commentary, 19 (2). pp. 1-2. ISSN 0306-7866 ,

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THE WORLD ECONOMY



Summary

Little has changed on the International horizon since the last edition of the Quarterly economic Commentary. Activity in the major seven countries is at best very weak. Recovery has continued at a slow pace in the United States and in Europe the situation is still very uncertain. In the second quarter activity in France remained unchanged and in Western Germany the components of demand remained very weak indeed. In fact, in the second quarter the worst performance came from the Japanese economy. Activity actually fell, even after considerable fiscal injections in the last 12-18 months.

Unemployment is of course the main problem facing the European Union, and the USA to a lesser extent. The EU average rate of unemployment has now risen to over 11% of the labour force. The Spanish rate is estimated at 22.2%, compared with a rate of 10.4% in the United Kingdom. Eurowatchers are waiting eagerly for the EC White paper on 'Growth, Competitiveness and Employment' which is expected to outline various measures to combat rising joblessness. Unemployment is falling very slowly in the USA and some analysts are still voicing concerns of a jobless recovery.

Consumer Prices are steady in the world economy.

The only country where fears of inflation still exist is the United States. However unit labour costs are still falling, on the back of rapid productivity growth, and the outlook seems to suggest consumer price inflation of around 3% for the foreseeable future. In Europe, and Japan, the weakness of demand and high real exchange rates have served to dampen any inflation that still exists.

World Trade

The successful passage of the North American Free Trade Agreement (Nafta) through the US Congress, and the package of tariff-cuts agreed upon by the Asian-Pacific Economic Cooperation (Apec) countries at their recent two-day meeting in Seattle, U.S.A, have yet again reignited optimism for the successful completion of the Uruguay Round of Trade talks by the 15 December 1993 deadline. The ratification of Nafta by the US Congress has permitted the US trade negotiation team, headed by Mr Mickey Kantor, to focus exclusively on the Uruguay trade talks.

But the successful conclusion to these trade talks hinges crucially on the US and the European Union (EU) resolving their differences on various issues - the principal ones being farm trade, the audiovisual and aircraft industries. Fortunately, recent signs are indicating that the French government are prepared to withdraw their threats to veto a US-EU deal provided that any such package protects "French national interests". This has undoubtedly been a positive development and has contributed to the expectation that the December 1 talks in Brussels between the EU trade negotiation team - spearheaded by Sir Leon Brittan - and the US trade representatives will resolve the differences between these two parties and allow them to provide a comprehensive market-opening package to the rest of Gatt membership.

Such is the importance of the US and the EU in these trade talks that the remaining Gatt membership awaits anxiously the US-EU final package of market-opening offers before presenting their own final market-opening offers. Thus even with a US-EU package, tough negotiations still lie ahead before we can celebrate a more liberalised

"trading order" which is anticipated to raise world trade over the next decade by some £270 billion, and bail economies around the world out of their recessionary woes.

The World Economic Outlook

The performance of the Scottish economy can be improved on two fronts. Firstly, a successful conclusion to the Uruguay Round before the December deadline and secondly, a lowering of interest rates in the European Union.

Given these the general outlook for the G7 economy shows growth of just over 1% in 1993 and around 2% in 1994. The foreseeable future does not imply any likely tightening of policy, except perhaps in the USA. Since monetary policy affects prices with a lag of about two years and interest rates have been very low since end-1991, it quite likely that we can expect the FED to raise the cost of money in the New Year. On the back of this we can expect a depreciation of the European currencies against the dollar and an improved Scottish trading performance.